

Trends in IP Law in China: Is enforcement finally happening?

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For the past two decades, US companies have complained bitterly about China's IP laws and poor enforcement régime. US companies have lost billions to pirated software, automotive parts, CDs, and knock-off luxury goods. China's accession to the WTO was a ray of hope that China's laws will finally conform to international standards and that its enforcement will improve. After several years as a member of the WTO, are we now beginning to see signs of change?

Trademarks in China

Chinese Trademark Law was most recently amended in 2001.² Trademark registration in China is a first to file system. Applicants file the application with the Chinese Trademark Office (CTO), a division of the State Administration for Industry and Commerce (SAIC).³ Applicant may register any word, design, alphabet letters, numerals, three-dimensional symbol, and color combination.⁴

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² SUSAN ANTHONY, DEPARTMENT OF COMMERCE, PROTECTING AND ENFORCING YOUR INTELLECTUAL PROPERTY IN CHINA (2006), http://www.uspto.gov/web/offices/dcom/olia/ip_mrkt_place/07china.ppt

³ Beijing Embassy of the United States, IPR Report: Trademark, <http://beijing.usembassy.gov/iptrade.htm> (last visited June 9, 2006).

⁴ Trademark Law (P.R.C.), 2002, ch. I, art. 8. Registration of the marks is subject to limitations of Ch. I, Art. 10-13.

Trademarks fall into four basic types: product, service, certification, and collective. A mark must be distinctive, easily distinguishable, not in conflict with another party's prior rights, and not otherwise prohibited by law to be successfully registered as a trademark.⁵

In 2003, China issued the Regulation on Well-Known Trademark Certification and Protection in order to conform to the Paris Convention for the Protection of Industrial Property.⁶ The regulation offers protection for unregistered trademarks that are "widely known ..., and enjoy[] a comparatively high public reputation in China."⁷ To determine whether or not a mark is well-known, the Trademark Review and Arbitration Board (TRAB) will consider the reputation of the mark to the relevant public, the length of time for continued use of the mark, the time, extent, and geographical area of advertisement of the mark, records of protection of the mark as a well-known mark, and any other factors relevant to the reputation of the mark.⁸

Trademark owners are strongly encouraged to register marks with the United States and Chinese customs after obtaining mark ownership.⁹ Mark owners should submit registration material to the Customs and Border Protection (CBP) in the United States and the General Administration of Customs (GAC) in China.¹⁰ Doing so would fast-track approval of applications for customs protection when infringement does occur.¹¹ Registration is inexpensive, applies to both import and export, and stops goods in transit.¹² When infringement occurs, the trademark owner has three procedural options for remedy. First, the owner can

⁵ Trademark Law (P.R.C.), 2002, ch. I, art. 9; *See also* Beijing embassy, *supra* note 7.

⁶ The US-China Business Council, Intellectual Property Rights in China: Background and Figures (2005), http://www.uschina.org/info/china-briefing-book/ipr_backgrounder.htm (last visited June 5, 2006).

⁷ *Id.*; *See* Trademark Law (P.R.C.), 2002, ch. I, art. 13

⁸ Trademark Law (P.R.C.), 2002, ch. I, art. 14

⁹ Beijing Embassy, *supra* note 3.

¹⁰ Beijing Embassy

¹¹ *Id.*

¹² *Id.*

obtain administrative relief by contacting the local branch of the SAIC.¹³ After investigation, SAIC may issue an order enjoining infringement with both parties given the opportunity of a hearing.¹⁴ Parties may appeal that order to the People's Court.¹⁵ The advantages of this relief are that it is inexpensive, fast, local, and offers injunctive relief.¹⁶ The disadvantages are the risk of local protectionism, limited penalties, and limited geographic jurisdiction.¹⁷ Mark owners cannot recover for compensatory damage under this option.¹⁸ Possible relief the administrative body can offer include issuing a cease and desist order, confiscating and destroying infringing goods, confiscating material used to produce the infringing goods, and imposing a fine.¹⁹

The second option is seeking civil court relief against the infringer. Intermediate and special intellectual property courts exist in various major provinces.²⁰ Factors to determine proper jurisdiction include place of business, site of contract performance, and site of infringing activity.²¹ If the jurisdiction is found to be improper, the case will be transferred, not dismissed. Consequently, forum shopping is a common practice.²² Advantages of obtaining relief from civil courts include obtaining damages and injunction, rights of appeal, nationwide jurisdiction, and the possibility of a judge who specializes in intellectual property.²³ Disadvantages are low damage awards, difficulty in collecting damages, and high expenses.²⁴

¹³ *Id.*; Administrative relief is the most common remedy sought for trademark infringement matters. *Id.*

¹⁴ Meg Utterback, China Watch: Options for Enforcement of IP Rights of China (Mar. 3, 2006), <http://www.ipfrontline.com/printtemplate.asp?id=9721>

¹⁵ *Id.*

¹⁶ Anthony, *supra* note 2.

¹⁷ *Id.*

¹⁸ Beijing Embassy, *supra* note 3.

¹⁹ *Id.*; Imposed fines cannot exceed three times the illegal gain and if the amount is undeterminable, the SAIC has the discretion to set the fine amount not to exceed 100,000 RMB (\$12,000). *Id.*

²⁰ Utterback; *supra* note 14; Provinces include Beijing, Shanghai, Tianjin, Chongqing, Dalian, Yantai, Wenzhou, Fushan, Shenzhen, Zhuhai, Shantou, and Xiamen. *Id.*

²¹ *Id.*

²² *Id.*

²³ Anthony, *supra* note 2.

²⁴ *Id.*

Through the civil courts, the mark owner can seek preliminary injunction against the infringer, although this is rarely granted.²⁵ To obtain the preliminary injunction, the mark owner must show itself as the owner or exclusive licensee of the mark, that infringement is ongoing or imminent, and that irreparable harm will be suffered if no immediate injunction is granted.²⁶

Finally, the mark owner can pursue criminal prosecution of the infringer. Under Chinese Trademark Law, an infringer can be criminally prosecuted if he “seriously” uses an identical trademark without authorization, makes or sells any representation of another trademark without permission, or sells goods that he knows bears the counterfeited trademark.²⁷ If convicted, an infringer could face imprisonment and monetary fines.²⁸ To begin criminal prosecution, a private company can advise the local prosecutor of infringing activities.²⁹ The local prosecutor may then raid the manufacturing site, confiscate infringing material, and/or press charges.³⁰ Foreign companies would usually need to assist the prosecutor in collecting evidence.³¹ The advantages of pursuing this option include deterrence, the ability to stop infringers “permanently,” and potentially lower expenses than civil litigation.³² Currently, no laws exist to clarify the threshold for “serious.”³³ Government officials have started to consider the quantity of produced infringing products, amount of illegal gain, and prospective harm to public health and safety as factors.³⁴

²⁵ Utterback, *supra* note 14.

²⁶ *Id.*

²⁷ Trademark Law (P.R.C.), 2002, ch. VII, art. 59.

²⁸ Beijing Embassy, *supra* note 3.

²⁹ Utterback, *supra* note 14.

³⁰ *Id.*

³¹ *Id.*

³² Anthony, *supra* note 2.

³³ Beijing Embassy, *supra* note 3.

³⁴ *Id.*; Criminal Law (P.R.C.), article 140 giving sentencing guidelines for “crimes of producing and marketing fake or substandard” commodities (based on the amount of illegal earnings) may give hint regarding what the courts would consider “serious.” *Id.*

Mark owners should register early to avoid others from registering first. Unless a trademark can be shown as a well-known mark, it is highly unlikely for a Chinese court to invalidate a trademark registration.³⁵ What is “well-known” in China is also a highly subjective and localized standard. Starbucks had registered its English name in 1996 and “Xingbake” (“*xing*” = star and “*bake*” sounds like buck), the Chinese translation in February of 2000.³⁶ A Chinese coffee shop owner in Shanghai using the same mark of “Xingbake” applied in October of 1999 and registered in March 2000. The court held that since “Xingbake” is a well-known trademark in China, the court looked at the registration date, rather than the filing date, as the relevant date. Starbucks won that fight, but is still engaged in others throughout the country.

Foreign trademark owners should also register early to avoid its mark from becoming generic. Mark owners should learn from Pfizer’s difficult lesson. Pfizer attempted to, and failed, to register the trademark “ENVACAR” for its anti-high blood pressure products.³⁷ The court found sufficient evidence of the mark’s generic nature in the Chinese dictionary despite Pfizer’s arguments that it was the creator and owner of the mark.³⁸ Had they registered earlier – before the name came to have its own definition, they may have prevailed.

In addition to early registration, the foreign trademark owner should register all translated versions to avoid squatters. Mark owners should also be aware of the different texts and dialects in China when translating.³⁹ Selecting a Chinese mark requires careful thought and understanding of the culture and language. When owners of marks fail to register a Chinese version of the mark, its products may gain an informal, often unflattering, nickname from

³⁵ Vett, Willi, China: A Country Without Sufficient Intellectual Property Law Regulations? (April 19, 2006), <http://www.fiducia-china.com/News/2006/1904-1144.html>

³⁶ *Id.*

³⁷ NTD Intellectual Property, Pfizer Failed to Register Trademark “ENVACAR,” Dec. 20, 2004, <http://www.chinatd.com/news.php?language=en&channel=53&id=105>

³⁸ *Id.*; ENVACAR is defined as a term used for anti-high blood pressure in the dictionary. (*Id.*)

³⁹ Bretonniere, JF, Some Practical Key Issues in the Management of an International Trademark Portfolio, http://www.buildingipvalue.com/06Global/054_057.html

Chinese consumers.⁴⁰ Quaker Oats is known as the “old man brand” (*lao ren pai*) and Polo is known as the three-legged horse (*san jiao ma*).⁴¹

Numerous high profiled trademark victories evidence the Chinese government’s effort to prove its commitment to protection of intellectual property rights. Normally reluctant to award damages, Chinese courts have surprisingly issued several damage awards to foreign companies in recent cases. In its “Xingbake” litigation, Starbucks won \$62,000 in damages (a relatively large Chinese judgment).⁴² Dunhill, in its suit against a Beijing department store for selling wallets, ties, and belts bearing Dunhill’s mark, won \$6,200.⁴³ ETS, in its litigation for copyright violation of its TOEFL exam, won an astounding \$456,000, an extremely high damage amount by Chinese standards.⁴⁴

Anti-infringement efforts also appear to be aimed now at “intermediaries,” imposing third party liability on contributing infringers such as landlords and market retailers. Beijing’s Shio-Shui Market, famous for its low priced counterfeit goods, was recently held liable to several foreign mark owners, such as Prada and Louis Vuitton, for the infringing activities of its vendors.⁴⁵ The litigation was resolved in three months, the fastest ever seen, and touted by the media as China’s example of commitment to intellectual property protection.⁴⁶ The court held the Market liable for its inaction to the foreign companies’ voiced concerns.⁴⁷ These victories and creative solutions seem to herald a new enforcement pattern in China.

Patent Protection

⁴⁰ *Id.*

⁴¹ *Id.*

⁴² Ewing, Kent, A Victory for Starbucks in Trademark War, ASIA TIMES, Jan. 20, 2006, http://www.atimes.com/atimes/China_Business/HA20Cb01.html

⁴³ *Id.*

⁴⁴ *Id.*

⁴⁵ Chou, Hsiao-Bing, State Intellectual Property Office of P.R.C., Shio-Shui Market, April 29, 2006, http://www.sipo.gov.cn/sipo/xwdt/yazz/200604/t20060429_99179.html.

⁴⁶ *Id.*

⁴⁷ *Id.*

The Chinese Patent Law provides protection for three kinds of patents: invention, utility model, and design patents. Invention patents have terms of 20 years from the date of filing and are analogous to regular U.S. patents. As in the U.S., invention patents require novelty, inventiveness and practical applicability and typically take 3 to 5 years to issue. While substantial examinations are carried out for invention patent applications, utility model and design patents only require a preliminary examination and can usually be granted within a year. A Chinese design patent has a term of 10 years and is limited to non-functional design. A utility model patent protects technical solutions that result from the shape or structure or an invention/product. It also has a term of 10 years from the date of filing.⁴⁸

Since China uses a first-to-file system, foreign companies are well advised to file early if their products have features or designs that are prone to imitation. A strategy often used by the Chinese is to file for utility model or design patents simultaneously with the invention patents, and abandon the utility or design patents when the invention patents issue.

In China, there are two bodies that adjudicate patent disputes and enforce patent rights: the administrative State Intellectual Property Office (SIPO), and the Intellectual Property tribunals at different levels of the People's Court. SIPO is the only agency that examines and grants patents, however, unlike the USPTO, SIPO and its local branches also handle most patent-related disputes. The IP tribunals at different levels of the People's Court handle disputes between private parties, as well as appeals of decisions made by SIPO. The IP tribunals are specialized courts that have the power to issue preliminary and permanent injunctions, and to award damages. The administrative procedure by SIPO is faster than the courts. However, its

⁴⁸ Embassy – U.S. Embassy Beijing China, “IPR Toolkit”, <http://beijing.usembassy.gov/iprpatent.html> (last visited June 9th, 2006).

remedy is limited to orders to terminate infringement, destroy infringing products or impose fines.

Patent invalidation proceedings are heard exclusively by SIPO's Patent Reexamination Board (PRB) and is independent of infringement determinations in the courts. However, sometimes infringement actions can be suspended pending SIPO's invalidation proceedings. Generally, suspensions are more likely for actions involving design patents or utility model patents, and are less likely for actions involving invention patents.

Last week, Pfizer reclaimed its rights to the seminal Viagra patent. In 2004 the PRB had originally invalidated the Viagra patent citing insufficient disclosure. Pfizer appealed and the Beijing First Intermediate Court overturned that decision on June 2, 2006.⁴⁹ However, PRB may appeal this ruling to the High Court, and more battles remain ahead for Pfizer to clean up the widespread availability of counterfeit Viagra in China.

Patent filing is on the rise in China, but so is litigation. In 2005, the total number of patent applications filed in China was 476,264, representing a 34.6% increase from year 2004. Of the total, Chinese nationals filed about 80.5%.⁵⁰ In the same year, there were 135 more patent cases filed in Chinese courts than in U.S. courts.⁵¹ In addition, 2006 marks the first time that a Chinese company has brought a patent infringement suit in the US. Netac Technology alleged that PNY, a US manufacturer of USB flash-memory products, infringed its U.S. patent. Netac has already successfully sued a domestic company Beijing HuaQi in 2002, and is currently in

⁴⁹ See e.g., MarketCenter, "Pfizer's Viagra Patent Upheld by Chinese Court", <http://www.marketcenter.com/news/story.action?id=RTT606051354001270> (last visited June 6, 2006).

⁵⁰ The Central People's Government of The People's Republic of China, "SIPO Commissioner on IPR Protection", http://english.gov.cn/chinatoday/ft/060208_interview.htm (last visited June 6, 2006).

⁵¹ See State Intellectual Property Office of PRC, "2005 Patent Case Statistics in U.S. District Courts", http://www.sipo.gov.cn/sipo/xwdt/gwzscqxx/200605/t20060508_99430.htm (last visited June 6, 2006); State Intellectual Property Office of PRC, "Summary of 2005 Chinese IPR Protection", http://www.sipo.gov.cn/sipo/zcll/dtbd/gndt/200605/t20060512_99717.htm (last visited June 6, 2006).

litigation against one of Sony's factories in eastern China. According to Netac's president, 10 companies have already licensed its technology, including the Samsung Electronics.⁵² Netac's action in the U.S. indicates that Chinese companies are learning to use patents as weapons to level the playing field in their overseas development.

Conclusion

While damages remain low by US standards and court victories are still scarce, China is showing signs that in addition to changing the wording of its IP laws, it is changing the spirit of enforcement. Recent cases show an increase awareness of IP issues by Chinese individuals, companies, courts and government. For any meaningful change to occur in IP enforcement in China, the sign that change is occurring internally is perhaps the most encouraging of all.

⁵² Netac, Corporate News: Milestone of China Company to Enforce Its Patent Right Overseas", http://www.netac.com/news/corp_news2006_2_16.htm (last visited June 6, 2006).